



October 29, 2019

MEMORANDUM

To: Cassandra Lassiter, Ed. D, Associate Superintendent,
Elementary Schools

Erika Proctor, Principal
J Frank Dent Elementary School

From: Michele Winston, CPA, Director
Internal Audit

Re: Financial Audit for December 1, 2017 through June 30, 2019

An audit was completed on the financial records of J Frank Dent Elementary School for the period December 1, 2017 through June 30, 2019. The audit indicates that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education policies and procedures. The exceptions noted in the audit are documented in the attached audit report.

As principal of the school, you will be responsible for preparing an action plan by **November 29, 2019** indicating steps that will be taken to ensure compliance with the APM. Please note that you are required to provide your action plan using the attached Microsoft word template and any other correspondence to the Internal Audit Office, email address internal.audit@pgcps.org. **Please forward this template as a Microsoft Word document.** A copy of your action plan should also be forwarded to Derrick Martin, Internal Auditor II, email address: derrick.martin@pgcps.org; Deborah Smalls, Business Operations Technician, email address: deborah.smalls@pgcps.org; and Joeday Newsom, Esq., Ethics Compliance Officer, email address: joeday.newsom@pgcps.org.

Enclosure

cc: Alvin Thornton, Ph. D., Board Chair
Monica Goldson, Ed. D., Chief Executive Officer
Members, Board of Education
Christian Rhodes, Chief of Staff
Michael Herbstman, Chief Financial Officer
James Dougherty, Esq., Director, Financial Services
Helen Coley, Ed. D., Chief, School Support and Leadership
Joeday Newsom, Esq., Ethics Compliance Officer
Suzann King, Esq., Executive Director, Board of Education
Kelvin Campbell, Internal Auditor II

Internal Audit Report

**J Frank Dent Elementary School
Student Activity Funds**

For the Period Ended June 30, 2019

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

Table of Contents

INTERNAL AUDITOR’S REPORT.....2
SUMMARY.....3
OBJECTIVES3
SCOPE.....3
FINDINGS AND RECOMMENDATIONS4
STATUS OF PRIOR AUDIT FINDINGS12
ACKNOWLEDGEMENT12

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

Internal Auditor's Report

We have examined the Student Activity Funds (SAF) of J Frank Dent Elementary School for the period December 1, 2017 through June 30, 2019. J Frank Dent Elementary School's principal is responsible for the administration of SAF. Our responsibility is to express an opinion based on our examination.

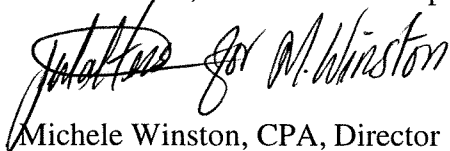
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Governmental Accountability Office and, accordingly, included examining, on a test basis, evidence supporting SAF, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Our examination disclosed the following findings:

- *Mismanagement of Disbursements*
- *Administration of Checks*
- *Mismanagement of Funds Received*
- *Noncompliance with Authorized Signers Requirement*
- *Record Retention*
- *Vending Machine Contract*
- *Deficits in Restricted Accounts*
- *Financial Reporting*

Individually or in the aggregate, these findings resulted in a material deviation from Board of Education (BOE) Policies and Procedures and the requirements of the Accounting Procedures Manual for School Activity Funds (APM).

In our opinion, except for the deviations from the criteria described in the preceding paragraph, the SAF referred to above, was administered in compliance with BOE policies and procedures and the APM, in all material respects, for the period ended June 30, 2019.



Michele Winston, CPA, Director
Internal Audit

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

SUMMARY

The Internal Audit Department completed an audit of the student activity funds (SAF) for J Frank Dent Elementary School for the period December 1, 2017 through June 30, 2019. The audit was conducted as part of the department's annual audit plan.

The audit indicated that the school's financial records and procedures require improvement to be in accordance with the Accounting Procedures Manual for School Activity Funds (APM) and Board of Education (BOE) policies and procedures.

Detailed findings from the current audit are cited on the following pages with accompanying recommendations for corrective action.

OBJECTIVES

The objectives of the audit were to determine the effectiveness of the system of internal controls and whether the school complies with the policies and procedures of the APM and the BOE. It is important to recognize that, while the audit focused on deficiencies, it was intended to be constructive. The audit was not designed and conducted to evaluate the effectiveness of the educational programs in the school. Therefore, the absence of comments related to the educational programs should not be construed to imply that these programs are either adequate or deficient.

SCOPE

The audit was based on our review of bank statements, financial reports, selected cancelled checks, and all voided checks and Monetary Transmittal Form (MTF) envelopes submitted by staff, for the period December 1, 2017 through June 30, 2019. In addition, selected receipts, disbursements and supporting documentation were reviewed for the said period.

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

FINDINGS AND RECOMMENDATIONS

The audit resulted in the following findings and recommendations

2020.01 Mismanagement of Disbursements

There were **10** of the **19** cash disbursements reviewed that were not processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of disbursements were noted:

- A. ***Inadequate Approval*** - There were **6** instances where expenditures were not adequately approved. The fields for *Authorized by* and *Approved by* on School Funds Expenditure Forms (SFEF) were not signed by the principal.
- B. ***Delinquent Vendor Payments*** – There were **2** instances where payments to vendors were delinquent. The delinquency was **43** and **66** days.
- C. ***Contracts*** - There was **1** instance where a contract for services for field trip transportation was not signed by the principal.

The APM provides the following guidelines regarding the administration of cash disbursements:

- A. Prior to ordering or purchasing goods or services, a SFEF must be completed and signed by the principal.
- B. Invoices are required to be paid within 30 days of receipt or by the invoice due date. Principals should review invoices and statements for past due amounts and ensure that payments are made in a timely manner.
- C. The principal, as the fiduciary agent of the school, must approve and sign all agreements and contracts entered into for all school activities.

Contributory factors for deficiencies noted include the following:

- A. SFEFs were accepted from staff that were incomplete.
- B. The principal's failure to approve all agreements and contracts entered into for all school activities was an oversight.
- C. The recordkeeping staff did not follow established internal controls relative to management of disbursements.

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

- D. Neither the principal and nor the recordkeeping staff read the APM to have a thorough understanding of the requirements for disbursements.

Mismanagement of disbursements constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Approving purchases without adequate documentation or failure to approve expenditures could result in payment for goods and services that were not received and increases the school's vulnerability to potential misuse or waste of resources. The risk of insolvency is present when the available funds amounts are not determined prior to approval of purchases or contracts are not entered into by the principal on behalf of the school. Delinquent payments of invoices could result in the vendor placing the BOE's account with a collection agency where significant collection fees could be assessed.

Recommendation: The principal and recordkeeping staff must perform the following to improve the administration of disbursements:

- A. Ensure staff members are notified that pre-approval is required prior to the purchase of products or services and be held accountable for compliance. SFEFs should be entirely completed by staff. The principal should ensure all pre-approval details are included on SFEFs prior to authorizing expenditures.
- B. Ensure that vendor payments are issued timely, within 30 days of receipt or by due date on invoice.
- C. The recordkeeping staff and principal must review the APM to understand the requirement for disbursements and ensure that internal controls are established and followed for each cash disbursement transaction.

2020:02 Administration of Checks

The following exceptions pertaining to administration of checks were noted:

- A. ***Approved Signatures*** – There were **2** instances where the two approved signatures (one by the principal and one by the bookkeeper or an alternate in absence of either the principal or bookkeeper) were not affixed to all school checks generated from SFO.
- B. ***Voided Checks*** - During the review of the school's voided checks, the following exceptions were noted:
- There were **6** instances where checks were not properly voided by removal of the signature line.
 - There were **7** instances where voided checks could not be located in the school's files to determine appropriate processing.

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

The APM provides the following guidelines regarding the administration of checks:

- A. Two authorized signatures are required on all checks. In accordance with AP 4180, *School Bank Accounts*, the two standard check signers should be the principal and the bookkeeper. The third signer must be a vice-principal or a school administrator.
- B. All voided checks must be entered in SFO and have “VOID” written across the face of the check. The signature line must be removed and the voided checks attached to the Void Check Proof Sheets.

Contributory factors for deficiencies noted in the administration of checks were:

- A. The former principal and recordkeeping staff failed to establish a system of internal controls that ensured all checks were signed by the required 2 signatories.
- B. The ineffective internal controls also, did not facilitate the removal of signature lines from voided check or adequate filing of voided checks.

Mismanagement of checks constitutes non-compliance with BOE policies and procedures and increases financial risk to the school and the staff. Issuing checks without the two authorized signatures can result in payment for goods and services that were not received and increases the school’s vulnerability to potential misuse or waste of resources. Failure to properly void checks could result in unauthorized negotiation of checks.

Recommendation: The following corrective actions should be implemented for the administration of checks to be made in accordance with BOE policies and procedures:

- A. The principal must ensure that all school checks include 2 approved signatures that are affixed – one by the principal and one by the recordkeeping staff or an alternate in absence of either the principal or bookkeeper.
- B. The recordkeeping staff must be reminded of the importance of administering checks as required by the BOE. The signature line must be removed from all voided checks.

2020:03 Mismanagement of Funds Received

Collections reviewed were not always processed in accordance with BOE policies and procedures. Some transactions had multiple noncompliance or internal control weaknesses. The following exceptions pertaining to management of funds received were noted

A. Monetary Transmittal Form Documentation (MTF):

- 1) There was **1** instance where cash receipts were not properly supported (incomplete MTF).

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

- 2) There was **1** instance where changes made to a MTF was not completed according to the MTF instructions.
- B. ***Delinquent Deposit*** – There were **7** instances where deposits were not made in a timely manner. The delinquency ranged from **4** to **46** days
- C. ***Fundraiser Forms not completed*** - Fundraising sponsors failed to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the annual reports summarizing fundraising activities held during the school year.
- D. ***Transfer of Funds Received*** - There were **5** instances where support to substantiate transfer of funds received were not made available for review. It could not be determined whether transfers were made in accordance with the requirements of the APM.

The APM provides the following guidelines regarding the administration of funds received:

- A. MTFs should be supported with student remittance forms, fundraiser forms or other documentation that shows the source and purpose of funds. All funds collected should be remitted to the bookkeeper and properly supported with approved MTFs. Changes and alterations made to MTFs require initials.
- B. Bookkeepers must make deposits of all funds received at least every other day. However, no more than **\$250.00** should be kept in the building overnight. If funds are kept on-hand at the school awaiting deposit, it must be kept in a secure location. It is important that schools establish internal controls to ensure frequent deposits occur.
- C. Clubs and organizations are required to complete the Fundraiser Request and Authorization Forms, Fundraiser Completion Reports and the principal or designee must prepare annual reports summarizing fundraising events held during the school year. These documents must be maintained on file for public and auditor review upon request.
- D. Restricted transfers are only authorized if reviewed and approved by the principal.

Contributory factors for deficiencies noted included the following:

- A. The recordkeeping staff did not perform verification of all MTFs and supporting documentation prior to accepting MTFs and making deposits.
- B. Funds were held by teachers' failure to adhere to the same day remittance requirement.
- C. The filing system for financial records was inadequately maintained by the recordkeeping staff which allowed for misplacement of financial records.

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

- D. Oversight was not provided by the principal to ensure retention of all cash receipt documentation.

Failure to adequately perform recordkeeping responsibilities over the processing of funds received constitutes noncompliance with the requirements of the APM. Audit evidence for ensuring all funds collected were subsequently remitted and deposited was not available and impacts the accuracy of financial reporting upon which administrators rely to make financial decisions. Failure to complete fundraising forms removes audit evidence sufficient to provide administrators and interested personnel with information about fundraising results. Failure to complete transfers in accordance with the requirements of the APM could lead to inaccurate recording and reporting of the school's financial transactions.

Recommendation: The following corrective actions must be implemented for J Frank Dent Elementary School's collections to be made in accordance with BOE policies and procedures:

- A. The recordkeeping staff must ensure that all MTF documentation is complete including verifying that all supporting documentation is attached along with the MTF prior to acceptance and deposit of funds. MTFs should be returned to staff for correction if changes are not initialed.
- B. The recordkeeping staff must be reminded that all funds collected and remitted should be deposited promptly. Teachers must be informed that funds collected cannot be held overnight. The principal must provide the recordkeeping staff with adequate time to verify that funds collected are as indicated on the MTFs submitted and that deposits are made with the bank timely. The principal should perform periodic review of the deposit records to monitor whether deposits are made as required. The principal should hold all staff accountable for compliance.
- C. The principal must establish internal controls to ensure that staff completes the required fundraising forms for fundraising events held. These documents must be maintained on file for public and auditor review upon request.
- D. The principal must establish internal controls to ensure that transfers between restricted accounts are only authorized if reviewed and approved by the principal.

2020.04 Noncompliance with Authorized Signers Requirement

There were only 2 authorized signatories on the school's bank account. The former principal and former recordkeeping staff were still signatories on the school's bank account as of this report issuance date.

According to the APM, 3 individuals are required as check signers on the school's bank account as listed on the bank "Signature Card". The 2 standard check signers should be the school

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

principal and bookkeeper/secretary. The third alternate check signer must be a vice-principal or other school administrator.

Established internal controls relative to authorized signatories were not followed. The current principal has not submitted a new bank Signature Card to Treasury Operations for the changes to be effected. Failure to follow instructions for authorized signatories places the school in a position of non-compliance with BOE policies and procedures. In addition, it allows both the former principal and recordkeeping staff to have access to SAF funds.

Recommendation: The principal must take action to update authorized signatories of the school's bank account. This includes removing both the former principal and former recordkeeping staff and adding herself and the current recordkeeping staff. Furthermore, because the school does not have a vice-principal, the principal must determine the third authorized signatory on the account. Additionally, the principal must take some time to familiarize herself with the requirements of the APM and establish internal controls to ensure that the bank signature card is appropriately updated.

2020.05 Record Retention

Supporting documentation to substantiate accounting transactions were not made available during the audit. The following exceptions were noted:

- A. There were **12** instances where cash disbursements documentation could not be located.
- B. There were **14** instances where cash receipts documentation was not available for review.
- C. Year-end MTF envelopes for 2 staff members containing **18** MTF remittances were not available for review.

According to Section 6.12 of APM, *Record Retention*, "all SAF records must be retained for a period of **7** years and or until audited, including the current fiscal year. This includes, but is not limited to, financial reports, bank statements, receipts, disbursement authorities, Monetary Transmittal Forms (MTF), School Funds Expenditure Forms (SFEEF), cancelled checks and contracts."

The recordkeeping staff failed to maintain an adequate filing system and the principal did not provide adequate oversight into the records management process. Failure to make financial records available for audit constitutes noncompliance with BOE policies and procedures and compromises the audit trail necessary for determining compliance with applicable requirements.

Recommendation: The principal must ensure proper custody of all records relating to SAF until they are audited. An adequate records management system must to be implemented to help

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

ensure that in the absence of the recordkeeping staff or principal, financial documents would be filed properly to ensure accessibility for future review.

2020.06 Vending Machine Contract

The school operates **1** faculty vending machine for soda. As of the date of the audit, there is no signed contract on file stipulating commissions due to the school and frequency of commissions.

The APM, Section 9.8, *Vending Machine Sales*, states that all schools with vending machines must have a signed contract stipulating commissions due to the school and frequency these commissions are remitted. The contract term cannot exceed one year.

The principal did not ensure that a contractual agreement for vending services was established. The nonexistence of a valid contractual agreement for the vending machine prohibits the BOE from determining whether the school is deriving maximum benefits from the operation of the vending machines. Additionally, the amount of funds that could be used to offset the deficit in the PSA fund account may be understated.

Recommendation: The principal must establish procedures to ensure that current vendor contracts are established, adhered to, and maintained on file in compliance with BOE policies and procedures. The principal should consult with Purchasing and Supply Services to identify an alternate vending company in the absence of a contract.

2020.07 Deficits in Restricted Fund Accounts

The SAF included **7** restricted fund accounts with deficits totaling **(\$11,031.70)** as of June 30, 2019. The following is a listing of top four accounts with deficits:

- The Publick Playhouse account (Field Trip) has a deficit of **(\$760.00)**
- The Fraudulent Checks-Bethea account has a deficit of **(\$7,401.00)**
- The Yearbook account has a deficit of **(\$1,073.62)**
- The Principal Sponsored Activities (PSA) account has a deficit of **(\$1,797.08)**

According to the APM, expenditures for all restricted accounts are limited to the amount of funds collected for those activities. When restricted accounts exceed the available cash balance, the account is insolvent. As the fiduciary agent for the SAF, the principal should ensure SAF accounts are solvent at all times.

The account with the largest deficit (*Fraudulent Checks-Bethea*) resulted from a fraud identified in a previous audit. The principal and the recordkeeping staff did not monitor the remaining accounts to ensure that restricted accounts maintained positive balances. Spending occurred in

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

excess of available funds in the respective accounts resulting in restricted account deficits. BOE policies and procedures as established in the APM regarding the use of restricted funds were not always followed.

Students are not receiving the maximum possible benefit from the resources that should have been available to them.

Recommendation: The principal must evaluate potential expenditures with regard to available resources and care must be exercised to ensure the resources are used to provide maximum benefit of the students. The principal should consult with Accounting and Financial Reporting Office to discuss options for resolution of deficits. Spending in these accounts must cease until the accounts' deficits are resolved.

2020.08 Financial Reporting

Monthly bank reconciliations were not performed timely in 5 instances. The range of delinquency was 2 to 30 days.

According to the APM, the principal is responsible for receiving the bank statement unopened. After reviewing the statement and cancelled checks, the principal forwards the documents to the recordkeeping staff for reconciliation. The recordkeeping staff should complete the reconciliation within 7 days after receiving the statement from the bank. Typically, this process is completed by the 15th of each month. The completed reconciliation should be returned to the principal every month for review and approval. After review and approval, all reports and related documentation should be organized and maintained in three-ring binders identified by fiscal year. This is not only good accounting practice; it also facilitates review by auditors.

The principal did not exercise proper oversight to ensure that monthly reconciliations were completed by the 15th of each month. BOE policies and procedures as established in the APM regarding the use of restricted funds were not followed. Reliable and complete financial information was not ready available for review by auditors.

Recommendation: The principal must establish procedures to ensure that monthly bank reconciliations occur by the 15th of each month and related documentation are organized and maintained in three-ring binders identified by fiscal year. Bank reconciliations must be reviewed by the principal for completeness and accuracy.

J Frank Dent Elementary School
Student Activity Funds
Internal Audit Report
For the Period Ended June 30, 2019

STATUS OF PRIOR AUDIT FINDINGS

The previous audit report for J Frank Dent Elementary School was issued for the period ended November 30, 2017. During that period, the current principal was not in her position. Currently, the recordkeeping staff position is vacant. The previous audit report included **9** reportable conditions of which **6** are repeated. The status those findings are indicated below:

- **Mismanagement of Disbursements-** Condition still exists. See **Finding 2020.01** regarding *Mismanagement of Disbursements*.
- **Mismanagement of Funds Received-** Condition still exists. See **Finding 2020.03** regarding *Mismanagement of Funds Received*.
- **Missing Funds -** Control appears to be working.
- **Record Retention-** Condition still exists. See **Finding 2020.05** regarding *Record Retention*
- **Vending Machines-** Condition still exists. See **Finding 2020.06** regarding *Vending Machine Contract*.
- **Excessive Spending in Restricted Accounts -** Condition still exists. See **Finding 2020.07** regarding *Deficits in Restricted Fund Accounts*.
- **Monthly Reconciliation and Financial Reporting -** Condition still exists. See **Finding 2020.08** regarding *Financial Reporting*.
- **Use of the Reimbursement Vendor Account -** Control appears to be working.
- **Management Oversight -** Control appears to be working.

ACKNOWLEDGEMENT

We would like to thank the principal and staff of J Frank Dent Elementary School for their cooperation and assistance extended during the audit.